

**REPORT OF THE AUDIT OF THE
UNION COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN

To the
Kentucky

AUDITOR OF PUBLIC ACCOUNTS

People of

Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary, Finance and Administration Cabinet
Honorable Jody L. Jenkins, Union County Judge/Executive
Honorable Frank J. Eiter, Former Union County Judge/Executive
Members of the Union County Fiscal Court

The enclosed report prepared by Peercy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Peercy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Peercy and Gray, PSC, evaluated the Union County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE UNION COUNTY FISCAL COURT

June 30, 2007

Peercy and Gray, PSC has completed the audit of the Union County Fiscal Court for fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$32,210,027 as of June 30, 2007. The fiscal court had unrestricted net assets of \$5,889,073 in its governmental activities as of June 30, 2007, with total net assets of \$32,177,015. In its business-type activities, total cash and cash equivalents were \$33,012 with total assets of \$33,012. The fiscal court had total debt principal as of June 30, 2007 of \$1,185,000 with \$125,000 due within the next year.

Report Comment:

- The Fiscal Court Should Revise The County's Capitalization Policy To Reflect The Actual Useful Life Of Infrastructure Being Used By The County In Current Schedules

Deposits and Investments:

The Fiscal Court deposits and investments were uninsured and uncollateralized by bank securities as follows:

- \$2,550,000 unsecured and uncollateralized as of August 31, 2006.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
UNION COUNTY OFFICIALS	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	13
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	16
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	20
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	24
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS...	29
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	33
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	37
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	41
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS.....	45
NOTES TO FINANCIAL STATEMENTS.....	49
BUDGETARY COMPARISON SCHEDULES	63
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	67
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	71
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	75
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	79
COMMENT AND RECOMMENDATION.....	81
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary, Finance and Administration Cabinet

Honorable Jody L. Jenkins, Union County Judge/Executive

Honorable Frank J. Eiter, Former Union County Judge/Executive

Members of the Union County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Union County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Union County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary, Finance and Administration Cabinet

Honorable Jody L. Jenkins, Union County Judge/Executive

Honorable Frank J. Eiter, Former Union County Judge/Executive

Members of the Union County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Union County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2007 on our consideration of Union County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comment and recommendation, included herein, which discusses the following report comment:

- The Fiscal Court Should Revise The County's Capitalization Policy To Reflect The Actual Useful Life Of Infrastructure Being Used By The County In Current Schedules

Respectfully Submitted,



Percy and Gray PSC

Certified Public Accountants

Louisville, Kentucky

September 18, 2007

UNION COUNTY OFFICIALS

For The Year Ended June 30, 2007

Jody L. Jenkins	County Judge/Executive
Terry Rodgers	Magistrate
Jerri Floyd	Magistrate
Chuck Voss	Magistrate
Joe Wells	Magistrate
Joe Clements	Magistrate

Other Elected Officials:

Brucie W. Moore	County Attorney
James Marty Girten	Jailer
Billy Steve Peak	County Clerk
Sue Beaven	Circuit Court Clerk
Mike Thompson	Sheriff
Ben Waller	Property Valuation Administrator
Stephen Shouse	Coroner

Appointed Personnel:

Lissa Gibson	County Treasurer
Vicki O'Nan	Finance Officer

Union County Judge/Executive

(270) 580-1051

P.O. BOX 80 - MORGANFIELD, KENTUCKY 42447-0080

FAX (270) 369-0406

Frank J. Eiler
JUDGE/EXECUTIVE



Management's Discussion and Analysis June 30, 2007

The financial management of Union County, Kentucky offers readers of Union County's financial statements this narrative overview and analysis of the financial activities of Union County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Union County had net assets of \$32,210,027 as of June 30, 2007. The fiscal court had unrestricted net assets of \$5,889,073 in the governmental activities as of June 30, 2007, with total net assets of \$32,177,015. In its business-type activities, cash and cash equivalents were \$33,012 with total assets of \$33,012. Total debt for governmental funds principal as of June 30, 2007 was \$1,185,000 with \$125,000 due within one year.
- The governmental activities' total net assets decreased by \$881,298 from the prior year. This decrease is primarily due to changes in governmental accounting practices.
- At the close of the current fiscal year, Union County governmental funds reported current fund balances of \$5,947,921. Of this amount \$5,549,879 is available for spending at the government's discretion (unreserved fund balance).
- Union County's total indebtedness at the close of fiscal year June 30, 2007 was \$1,185,000, of which \$1,060,000 is long-term debt (due after 1 year) and \$125,000 is short-term debt (to be paid within 1 year).

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Union County's basic financial statements. Union County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Union County's finances, in a manner similar to a private sector business.

Union County
Management's Discussion and Analysis
June 30, 2007
(Continued)

The *Statement of Net Assets* presents information on all of Union County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Union County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Union County's governmental activities include general government, protection to persons and property, roads, recreation and culture, general health and sanitation, bus services, social services, other transportation facilities and services, debt service, and capital projects. Union County has one business type activity—the Jail Canteen Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Union County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Union County can be divided into broad categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because of focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Union County maintains six (6) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Union County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Governmental Funds (Continued)

Major Funds:

- General Fund
- Road and Bridge Fund
- Jail Fund
- Local Government Economic Assistance Fund

Non-major Funds:

- Grant Fund
- Debt Service Fund

Union County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Fund. The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the County as a Whole.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Union County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Assets						
Current and other assets	\$ 5,908,479	\$ 5,947,921	\$ 20,613	\$ 33,012	\$ 5,929,092	\$ 5,980,933
Capital infrastructure assets	28,458,327	27,414,094			28,458,327	27,414,094
Total Assets	34,366,806	33,362,015	20,613	33,012	34,387,419	33,395,027
Liabilities						
Current and other liabilities	120,000	125,000			120,000	125,000
Long-term liabilities	1,185,000	1,060,000			1,185,000	1,060,000
Total Liabilities	1,305,000	1,185,000			1,305,000	1,185,000
Net Assets						
Invested in capital assets, net of related debt	27,153,327	26,229,094			27,153,327	26,229,094
Restricted	895,031	58,848			895,031	58,848
Unrestricted	5,013,448	5,889,073	20,613	33,012	5,034,061	5,922,085
Total Net Assets	\$ 33,061,806	\$ 32,177,015	\$ 20,613	\$ 33,012	\$ 33,082,419	\$32,210,027

Union County's Total Net Assets decreased by \$1,004,791. This was mostly due to the decrease of depreciation expense of \$1,204,373 being greater than the increase of the purchases of capital assets of \$163,333.

Union County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Financial Analysis of the County as a Whole (Continued)

Governmental Activities. Union County's net assets decreased by \$881,298 due to an increase in expenditures of \$1,097,093 and a decrease in revenues of \$1,133,697, and by a prior period adjustment of \$3,493 due to an error in recording capital improvements.

Business-type Activities. Union County's net assets increased by \$12,399.

Table 2
Union County Statement of Activities Comparison

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Program Expenses:						
General Government	\$ 2,525,752	\$ 2,728,006			\$ 2,525,752	\$ 2,728,006
Protection to Persons and Prope	949,278	862,409			949,278	862,409
General Health and Sanitation	117,056	193,353			117,056	193,353
Social Services	223,735	292,003			223,735	292,003
Recreation and Culture	759,795	356,028			759,795	356,028
Roads	1,559,690	1,816,584			1,559,690	1,816,584
Bus Services	71,421	73,915			71,421	73,915
Airport		85,000				85,000
Interest on Long-Term Debt	46,323	36,904			46,323	36,904
Capital Projects	1,157,867	2,063,808			1,157,867	2,063,808
Jail Canteen			45,861	42,401	45,861	42,401
Total Expenses	7,410,917	8,508,010	45,861	42,401	7,456,778	8,550,411
Program Revenues:						
Charges for Services	373,870	185,006	57,474	54,800	431,344	239,806
Operating Grants and Contributi	2,794,750	2,471,129			2,794,750	2,471,129
Capital Grants and Contribution	2,483,596	1,963,360			2,483,596	1,963,360
Total Program Revenues	5,652,216	4,619,495	57,474	54,800	5,709,690	4,674,295
General Revenues:						
Taxes	1,680,080	1,777,401			1,680,080	1,777,401
Excess Fees	201,956	161,245			201,956	161,245
Unrestricted Investment Earning	198,451	263,808			198,451	263,808
Miscellaneous Revenues	1,027,706	804,763			1,027,706	804,763
Total General Revenues	3,108,193	3,007,217			3,108,193	3,007,217
Total Revenues	8,760,409	7,626,712	57,474	54,800	8,817,883	7,681,512
Change in Net Assets	1,349,492	(881,298)	11,613	12,399	1,361,105	(868,899)
Beginning Net Assets	31,712,314	33,061,806	9,000	20,613	31,721,314	33,082,419
Prior Period Adjustment		(3,493)				(3,493)
Ending Net Assets	<u>\$ 33,061,806</u>	<u>\$ 32,177,015</u>	<u>\$ 20,613</u>	<u>\$ 33,012</u>	<u>\$ 33,082,419</u>	<u>\$32,210,027</u>

**Union County
Management's Discussion and Analysis
June 30, 2007
(Continued)**

Financial Analysis of the County's Funds.

As noted earlier, Union County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Union County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2007 fiscal year, the combined ending fund balances of County governmental funds were \$5,947,921. Approximately 93% (\$5,549,879) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance \$398,042 is reserved to indicate that it is not available for new spending because it is committed for the various encumbrances.

The General Fund is the chief operating fund of Union County. At the end of June 30, 2007 fiscal year, unreserved fund balance of the General Fund was \$1,477,103. The County received \$1,670,299 in real and personal property, motor vehicle, and other taxes for approximately 70% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 30% of revenues.

The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. Expenditures for fiscal year ending June 30, 2007 totaled \$942,119.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund's main source of revenue was from housing of prisoners. The General Fund contributed \$635,000 to the jail operations.

The Local Government Economic Assistance Fund primary source of revenue comes from coal severance and mineral taxes. It had an ending fund balance of \$723,452.

The Grant Fund is primarily made up of flow-through money for grants such as Juvenile Justice Grants were funding is from the state. The ending balance was \$20,756 of that amount \$-0- was for grants that had not had fiscal court approval to be reimbursed yet.

The Debt Service Fund is used to collect funds for the payment of debt expenditures. Funds are provided from intergovernmental revenue from the Commonwealth of Kentucky for rental of space and transfers from the General Fund. Debt expenditures for fiscal year ending June 30, 2007 totaled \$156,904.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Union County's proprietary fund is the Jail Canteen Fund. The Jail Canteen Fund's total cash balance was \$33,012.

General Fund Budgetary Highlights.

Union County's general budget was amended during the fiscal year increasing the budgeted amount by \$49,836. Budget amendments were made to various expenditures due to excess fees collected from the Fee Offices.

Union County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Capital Assets and Debt Administration.

Capital Assets. Union County's investment in capital assets for its government and business type activities as of June 30, 2007, amount to \$27,414,094 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, current infrastructure additions, construction in progress for park improvements, and old jail improvement. Union County has elected to report infrastructure assets per GASB 34 provisions.

Additional information of the County's capital assets can be found in Note 3 of this report.

Table 3
Union County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Infrastructure Assets	\$ 21,503,173	\$ 20,533,111			\$ 21,503,173	\$20,533,111
Land	386,375	386,375			386,375	386,375
Other Equipment	270,125	310,824			270,125	310,824
Bldgs. & Improvements	5,630,224	5,551,301			5,630,224	5,551,301
Vehicles & Equipment	668,430	632,483			668,430	632,483
Total Net Capital Assets	<u>\$ 28,458,327</u>	<u>\$ 27,414,094</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,458,327</u>	<u>\$27,414,094</u>

Long-Term Debt. At the end of the 2007 fiscal year, Union County had total bonded debt outstanding of \$1,185,000 from General Obligation Bonds. Additional information on the County's debt can be found in Note 4 of this report.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2008 fiscal year budget:

- The 2008 fiscal year adopted budget continues most services at current levels.
- The cost of housing prisoners and their medical bills will have a negative impact on funding for our detention center.
- The rapid growth of the cost of solid waste to the County is becoming a big expense in the County's operating budget.

Requests For Information.

This financial report is designed to provide a general overview of Union County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Union County Treasurer, P O Box 60, Morganfield, Kentucky 42437.

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

UNION COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,947,921	\$ 33,012	\$ 5,980,933
Total Current Assets	<u>5,947,921</u>	<u>33,012</u>	<u>5,980,933</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	386,375		386,375
Buildings	5,551,301		5,551,301
Other Equipment	310,824		310,824
Vehicles and Equipment	632,483		632,483
Infrastructure Assets - Net of Depreciation	<u>20,533,111</u>		<u>20,533,111</u>
Total Noncurrent Assets	<u>27,414,094</u>		<u>27,414,094</u>
Total Assets	<u>33,362,015</u>	<u>33,012</u>	<u>33,395,027</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	<u>125,000</u>		<u>125,000</u>
Total Current Liabilities	<u>125,000</u>		<u>125,000</u>
Noncurrent Liabilities:			
Bonds Payable	<u>1,060,000</u>		<u>1,060,000</u>
Total Noncurrent Liabilities	<u>1,060,000</u>		<u>1,060,000</u>
Total Liabilities	<u>1,185,000</u>		<u>1,185,000</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	26,229,094		26,229,094
Restricted For:			
Debt Service	58,848		58,848
Grant Projects			
Unrestricted	<u>5,889,073</u>	<u>33,012</u>	<u>5,922,085</u>
Total Net Assets	<u>\$ 32,177,015</u>	<u>\$ 33,012</u>	<u>\$ 32,210,027</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,728,006	\$	\$ 2,471,129	\$ 1,747,637
Protection to Persons and Property	862,409	33,928		123,723
General Health and Sanitation	193,353	10,684		92,000
Social Services	292,003			
Recreation and Culture	356,028	140,394		
Roads	1,816,584			
Airport	85,000			
Bus Services	73,915			
Interest on Long-term Debt	36,904			
Capital Projects	2,063,808			
Total Governmental Activities	8,508,010	185,006	2,471,129	1,963,360
Business-type Activities:				
Jail Canteen	42,401	54,800		
Total Business-type Activities	42,401	54,800		
Total Primary Government	\$ 8,550,411	\$ 239,806	\$ 2,471,129	\$ 1,963,360

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 1,490,760	\$	\$ 1,490,760
(704,758)		(704,758)
(90,669)		(90,669)
(292,003)		(292,003)
(215,634)		(215,634)
(1,816,584)		(1,816,584)
(85,000)		(85,000)
(73,915)		(73,915)
(36,904)		(36,904)
(2,063,808)		(2,063,808)
(3,888,515)		(3,888,515)
	12,399	12,399
	12,399	12,399
\$ (3,888,515)	\$ 12,399	(3,876,116)
433,089		433,089
79,805		79,805
128,415		128,415
1,136,092		1,136,092
161,245		161,245
804,763		804,763
263,808		263,808
3,007,217		3,007,217
(881,298)	12,399	(868,899)
33,058,313	20,613	33,078,926
\$ 32,177,015	\$ 33,012	\$ 32,210,027

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road And Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,496,039	\$ 3,632,356	\$ 16,470	\$ 723,452
Total Assets	<u>\$ 1,496,039</u>	<u>\$ 3,632,356</u>	<u>\$ 16,470</u>	<u>\$ 723,452</u>
FUND BALANCES				
Fund Balances:				
Reserved for:				
Encumbrances	\$ 18,936	\$ 97,432	\$ 8,173	\$ 273,501
Unreserved:				
General Fund	1,477,103			
Special Revenue Funds		3,534,924	8,297	449,951
Debt Service Fund				
Total Fund Balances	<u>\$ 1,496,039</u>	<u>\$ 3,632,356</u>	<u>\$ 16,470</u>	<u>\$ 723,452</u>

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 79,604</u>	<u>\$ 5,947,921</u>
<u>\$ 79,604</u>	<u>\$ 5,947,921</u>

\$	\$ 398,042
	1,477,103
20,756	4,013,928
<u>58,848</u>	<u>58,848</u>
<u>\$ 79,604</u>	<u>\$ 5,947,921</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 5,947,921
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	51,252,422
Accumulated Depreciation	(23,838,328)
Liabilities:	
Due Within One Year - Bonds	(125,000)
Due In More Than One Year - Bonds	<u>(1,060,000)</u>
Net Assets Of Governmental Activities	<u>\$ 32,177,015</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

UNION COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road And Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,670,299	\$	\$	\$
In Lieu Tax Payments	94,529			
Excess Fees	161,245			
Licenses and Permits	12,574			
Intergovernmental	133,315	987,761	178,652	3,045,322
Charges for Services			33,928	140,394
Miscellaneous	257,688	11,165	15,479	520,430
Interest	46,178	184,357	5,405	27,867
Total Revenues	<u>2,375,828</u>	<u>1,183,283</u>	<u>233,464</u>	<u>3,734,013</u>
EXPENDITURES				
General Government	974,791			696,170
Protection to Persons and Property	41,123		651,896	106,615
General Health and Sanitation				193,353
Social Services	4,047			268,016
Recreation and Culture	500			338,645
Roads		783,299		
Airport				85,000
Bus Services				73,915
Debt Service				
Capital Projects		23,250	612,320	1,591,871
Administration	386,754	135,570	215,532	247,699
Total Expenditures	<u>1,407,215</u>	<u>942,119</u>	<u>1,479,748</u>	<u>3,601,284</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>968,613</u>	<u>241,164</u>	<u>(1,246,284)</u>	<u>132,729</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	166,856		635,000	
Transfers To Other Funds	(715,311)	(161,825)		
Total Other Financing Sources (Uses)	<u>(548,455)</u>	<u>(161,825)</u>	<u>635,000</u>	
Net Change in Fund Balances	420,158	79,339	(611,284)	132,729
Fund Balances - Beginning	1,075,881	3,553,017	627,754	590,723
Fund Balances - Ending	<u>\$ 1,496,039</u>	<u>\$ 3,632,356</u>	<u>\$ 16,470</u>	<u>\$ 723,452</u>

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 For The Year Ended June 30, 2007
 (Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 1,670,299
	94,529
	161,245
	12,574
89,440	4,434,490
10,684	185,006
	804,762
	263,807
100,124	7,626,712
	1,670,961
	799,634
	193,353
	272,063
	339,145
	783,299
	85,000
	73,915
156,904	156,904
	2,227,441
	985,555
156,904	7,587,270
(56,780)	39,442
75,280	877,136
	(877,136)
75,280	
18,500	39,442
61,104	5,908,479
\$ 79,604	\$ 5,947,921

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**UNION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

UNION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	39,442
--	----	--------

Amounts reported for governmental activities in the statement of activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		163,633
Depreciation Expense		(1,204,373)

Financing Obligations and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. However, these transactions have no effect on net assets.

Bond Payments		120,000
---------------	--	---------

Change in Net Assets of Governmental Activities	\$	(881,298)
---	----	-----------

UNION COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

UNION COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 33,012
Total Current Assets	<u>33,012</u>
Net Assets	
Unrestricted	<u>33,012</u>
Total Net Assets	<u><u>\$ 33,012</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

UNION COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 21,807
Jail Fees	32,993
Total Operating Revenues	<u>54,800</u>
Operating Expenses	
Cost of Sales	8,125
Educational and Recreational	4,338
Jail Fees to County	29,658
Miscellaneous	280
Total Operating Expenses	<u>42,401</u>
Operating Income	<u>12,399</u>
Change In Net Assets	12,399
Total Net Assets - Beginning	<u>20,613</u>
Total Net Assets - Ending	<u><u>\$ 33,012</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

UNION COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 54,800
Cost of Sales	(8,125)
Educational and Recreational	(4,338)
Jail Fees	(29,658)
Miscellaneous	(280)
Net Cash Provided By Operating Activities	<u>12,399</u>
Net Increase in Cash and Cash Equivalents	12,399
Cash and Cash Equivalents - July 1, 2006	<u>20,613</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 33,012</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 12,399</u>
Total Cash Provided By Operating Activities	<u><u>\$ 12,399</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

UNION COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	<u>Agency Fund</u> <u>Inmate</u> <u>Account Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 1,206
Total Assets	<u> 1,206</u>
Liabilities	
Amounts Held In Custody For Others	<u> 1,206</u>
Total Liabilities	<u> 1,206</u>
Net Assets	
Total Net Assets	<u><u> \$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	49
NOTE 2.	DEPOSITS AND INVESTMENTS.....	55
NOTE 3.	CAPITAL ASSETS.....	57
NOTE 4.	LONG-TERM DEBT	58
NOTE 5.	COMMITMENTS AND CONTINGENCIES	58
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	59
NOTE 7.	DEFERRED COMPENSATION	59
NOTE 8.	INSURANCE	60
NOTE 9.	PRIOR PERIOD ADJUSTMENT	60

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and its fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Union County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. The county has no component units.

C. Union County Elected Officials

Kentucky Law provides for election of the officials below from the geographic area constituting Union County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Union County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary Funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions, and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, revenues are recorded when received and expenditures are recorded when paid.

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for general health and sanitation, social services, and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severance taxes, landfill user fees, and recreational area user fees. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The government also has the following non-major funds: Grant Fund and Debt Service Fund.

Special Revenue Funds:

The Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in trust or custodial capacity for individuals, private organizations, or other governments. Unlike other funds, the agency fund reports assets and liabilities only; therefore it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from the inmates.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	50
Buildings and Building Improvements	\$ 25,000	50
Machinery and Equipment	\$ 10,000	15
Vehicles	\$ 10,000	5
Infrastructure	\$ 10,000	12-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Debt Service Fund was not budgeted since bond payments were budgeted in the General Fund.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Union County Fiscal Court:

West Kentucky Regional Industrial Authority

The Union County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the West Kentucky Regional Industrial Authority (Industrial Authority). The Industrial Authority is a joint venture between the Fiscal Court, Webster, and McLean County Fiscal Courts. Upon dissolution of the Industrial Authority, assets will be returned to the participating Fiscal Courts on a pro-rata basis.

North Pennyryle E-911 Fund

The Union County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the North Pennyryle E-911. The North Pennyryle E-911 is a joint venture between the Fiscal Court, the Kentucky State Police, Lyon, Caldwell, Crittenden, and Livingston County Fiscal Courts. This fund was created to distribute E-911 taxes collected on phone services for the aforementioned counties and the Kentucky State Police and to pay related E-911 expenses.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, the County's deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2006, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$2,550,000 exposed to custodial credit risk as follows:

- Unsecured and uncollateralized - \$2,550,000

B. Investments

As of June 30, 2007, the County had the following investments included in cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Less than 90 days	\$ 1,000,000
Certificates of Deposit	Greater than 90 days	\$ 4,000,000
		<u>\$ 5,000,000</u>

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in on of the three highest categories by a nationally

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk (Continued)

recognized rating agency. Banker's acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk or concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. The County's certificates of deposit are included in the custodial credit risk disclosure for deposits.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Restated Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 386,375	\$	\$	\$ 386,375
Total Capital Assets Not Being Depreciated	386,375			386,375
Capital Assets, Being Depreciated:				
Buildings	6,789,989	30,707		6,820,696
Other Equipment	329,253	56,895		386,148
Vehicles and Equipment	2,820,513	76,031		2,896,544
Infrastructure	40,762,659			40,762,659
Total Capital Assets Being Depreciated	50,702,414	163,633		50,866,047
Less Accumulated Depreciation For:				
Buildings	(1,163,258)	(106,137)		(1,269,395)
Other Equipment	(59,128)	(16,196)		(75,324)
Vehicles and Equipment	(2,152,083)	(111,978)		(2,264,061)
Infrastructure	(19,259,486)	(970,062)		(20,229,548)
Total Accumulated Depreciation	(22,633,955)	(1,204,373)		(23,838,328)
Total Capital Assets, Being Depreciated, Net	28,068,459	(1,040,740)		27,027,719
Governmental Activities Capital Assets, Net	\$ 28,454,834	\$ (1,040,740)	\$ 0	\$ 27,414,094

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 71,490
Protection to Persons and Property	62,775
Social Services	19,940
Recreation and Culture	16,883
Roads, Including Depreciation of General Infrastructure Assets	1,033,285
Total Depreciation Expense - Governmental Activities	<u>\$ 1,204,373</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt

A. General Obligation Refunding Bonds, Series 2003

On March 19, 2003, the Union County Fiscal Court issued General Obligation Refunding Bonds, Series 2003 in the amount of \$1,630,000. The bonds were dated February 1, 2003, payable semi-annually on March 1 and September 1, beginning September 1, 2003. The interest rate on the bonds ranges from 1.00% to 3.70%. The bonds were issued in denominations of \$5,000 each or integral multiples thereof and mature at various dates beginning February 1, 2003 through February 1, 2015. The bonds are subject to early redemption prior to maturity. Principal outstanding as of June 30, 2007 was \$1,185,000. Future debt service requirement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	125,000	34,694
2009	125,000	32,038
2010	135,000	28,859
2011	135,000	25,063
2012	145,000	20,681
2013-2016	520,000	32,407
Totals	<u>\$ 1,185,000</u>	<u>\$ 173,742</u>

B. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation	<u>\$ 1,305,000</u>	<u>\$</u>	<u>\$ 120,000</u>	<u>\$ 1,185,000</u>	<u>\$ 125,000</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 1,305,000</u>	<u>\$ 0</u>	<u>\$ 120,000</u>	<u>\$ 1,185,000</u>	<u>\$ 125,000</u>

Note 5. Commitments and Contingencies

A. Ambulance Service Contract

Union County is currently operating under a lease agreement with the Union County Methodist Hospital regarding ambulance service for Union County including garage facilities. The contract states the County is liable for monthly deficits of the ambulance service. The contract provides no maximum expense for which the County is liable. During fiscal year ended June 30, 2007, the County has not received billing for the Union County Methodist Hospital for ambulance support. The County also paid \$27,981 directly to vendors for program support of the ambulance service.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Commitments and Contingencies (Continued)

B. Solid Waste Interlocal Agreement

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Union entered into an interlocal agreement with Henderson and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for approximately 20% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2007, were \$7,128.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-564-4646.

Note 7. Deferred Compensation

On June 24, 1986, the Union County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2007, Union County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustment

Beginning net assets and beginning capital assets has been restated by \$3,493 due to the incorrect inclusion of sewer improvements that should be recorded by the City of Morganfield.

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,260,222	\$ 1,260,222	\$ 1,670,299	\$ 410,077
In Lieu Tax Payments	98,000	98,000	94,529	(3,471)
Excess Fees	126,440	165,276	161,245	(4,031)
Licenses and Permits	7,250	7,250	12,574	5,324
Intergovernmental Revenue	203,700	203,700	133,315	(70,385)
Miscellaneous	259,600	259,600	257,688	(1,912)
Interest	9,000	9,000	46,178	37,178
Total Revenues	<u>1,964,212</u>	<u>2,003,048</u>	<u>2,375,828</u>	<u>372,780</u>
EXPENDITURES				
General Government	950,757	1,006,678	974,791	31,887
Protection to Persons and Property	48,898	48,898	41,123	7,775
Social Services	3,500	4,266	4,047	219
Recreation and Culture	502	502	500	2
Debt Service	84,959	76,123	75,280	843
Administration	418,341	420,326	386,754	33,572
Total Expenditures	<u>1,506,957</u>	<u>1,556,793</u>	<u>1,482,495</u>	<u>74,298</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>457,255</u>	<u>446,255</u>	<u>893,333</u>	<u>447,078</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	161,825	161,825	166,856	5,031
Transfers To Other Funds	<u>(782,282)</u>	<u>(782,282)</u>	<u>(640,031)</u>	<u>142,251</u>
Total Other Financing Sources (Uses)	<u>(620,457)</u>	<u>(620,457)</u>	<u>(473,175)</u>	<u>147,282</u>
Net Changes in Fund Balance	(163,202)	(174,202)	420,158	594,360
Fund Balance - Beginning	<u>163,202</u>	<u>174,202</u>	<u>1,075,881</u>	<u>901,679</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,496,039</u>	<u>\$ 1,496,039</u>

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD AND BRIDGE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
License and Permits	\$ 900	\$ 900	\$	\$ (900)
Intergovernmental Revenue	976,905	976,905	987,761	10,856
Miscellaneous	6,500	6,500	11,165	4,665
Interest	81,000	81,000	184,357	103,357
Total Revenues	1,065,305	1,065,305	1,183,283	117,978
EXPENDITURES				
Roads	1,350,720	1,428,044	806,549	621,495
Capital Projects	85,000	85,000		85,000
Administration	210,650	169,087	135,570	33,517
Total Expenditures	1,646,370	1,682,131	942,119	740,012
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(581,065)	(616,826)	241,164	857,990
OTHER FINANCING SOURCES (USES)				
Bond Sale Surplus	100,000	100,000		(100,000)
Transfers To Other Funds	(161,825)	(161,825)	(161,825)	
Total Other Financing Sources (Uses)	(61,825)	(61,825)	(161,825)	(100,000)
Net Changes in Fund Balance	(642,890)	(678,651)	79,339	757,990
Fund Balance - Beginning	642,890	681,482	3,553,016	2,871,534
Fund Balance - Ending	\$ 0	\$ 2,831	\$ 3,632,355	\$ 3,629,524

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 93,500	\$ 93,500	\$ 178,652	\$ 85,152
Charges for Services	37,300	37,300	33,928	(3,372)
Miscellaneous	8,000	8,000	15,479	7,479
Interest	500	2,820	5,405	2,585
Total Revenues	139,300	141,620	233,464	91,844
EXPENDITURES				
Protection to Persons and Property	680,082	680,082	651,896	28,186
Capital Projects	610,000	630,818	612,320	18,498
Administration	251,500	233,002	215,532	17,470
Total Expenditures	1,541,582	1,543,902	1,479,748	64,154
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,402,282)	(1,402,282)	(1,246,284)	155,998
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	782,282	782,282	635,000	(147,282)
Total Other Financing Sources (Uses)	782,282	782,282	635,000	(147,282)
Net Changes in Fund Balance	(620,000)	(620,000)	(611,284)	8,716
Fund Balance - Beginning	620,000	620,000	627,754	7,754
Fund Balance - Ending	\$ 0	\$ 0	\$ 16,470	\$ 16,470

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 3,275,450	\$ 4,118,850	\$ 3,045,322	\$ (1,073,528)
Charges for Services	160,200	160,200	140,394	(19,806)
Miscellaneous	456,250	505,940	520,430	14,490
Interest	18,000	18,000	27,867	9,867
Total Revenues	<u>3,909,900</u>	<u>4,802,990</u>	<u>3,734,013</u>	<u>(1,068,977)</u>
EXPENDITURES				
General Government	533,635	746,332	696,170	50,162
Protection to Persons and Property	201,359	438,840	183,062	255,778
General Health and Sanitation	122,010	216,661	193,353	23,308
Social Services	232,735	374,250	301,245	73,005
Recreation and Culture	297,558	461,782	369,352	92,430
Roads	156,976	156,976		156,976
Airports		85,000	85,000	
Bus Services	80,000	80,000	73,915	6,085
Capital Projects	2,350,000	2,500,256	1,451,488	1,048,768
Administration	330,850	335,947	247,699	88,248
Total Expenditures	<u>4,305,123</u>	<u>5,396,044</u>	<u>3,601,284</u>	<u>1,794,760</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(395,223)</u>	<u>(593,054)</u>	<u>132,729</u>	<u>725,783</u>
Net Changes in Fund Balances	(395,223)	(593,054)	132,729	725,783
Fund Balances - Beginning	<u>395,223</u>	<u>590,223</u>	<u>590,723</u>	<u>500</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (2,831)</u>	<u>\$ 723,452</u>	<u>\$ 726,283</u>

UNION COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Debt Service Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation to the General Fund

Total Expenditures-Budgetary Basis	\$ 1,482,495
Transfer to Debt Service Fund	<u>(75,280)</u>
Total Expenditures-Modified Cash Basis	<u><u>1,407,215</u></u>
 Total Other Financing Uses-Budgetary Basis	 (473,175)
Transfer to Debt Service Fund	<u>(75,280)</u>
Total Other Financing Uses-Modified Cash Basis	<u><u>\$ (548,455)</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

UNION COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Grant Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 20,756	\$ 58,848	\$ 79,604
 Total Assets	<u>\$ 20,756</u>	<u>\$ 58,848</u>	<u>\$ 79,604</u>
 FUND BALANCES			
Unreserved:			
Special Revenue Fund	\$ 20,756	\$	\$ 20,756
Debt Service Fund	<u></u>	<u>58,848</u>	<u>58,848</u>
 Total Fund Balances	<u>\$ 20,756</u>	<u>\$ 58,848</u>	<u>\$ 79,604</u>

THIS PAGE LEFT BLANK INTENTIONALLY

UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Grant Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$	\$ 89,440	\$ 89,440
Charges for Services	10,684		10,684
Total Revenues	<u>10,684</u>	<u>89,440</u>	<u>100,124</u>
EXPENDITURES			
Debt Service		156,904	156,904
Total Expenditures		<u>156,904</u>	<u>156,904</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>10,684</u>	<u>(67,464)</u>	<u>(56,780)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		75,280	75,280
Total Other Financing Sources (Uses)		<u>75,280</u>	<u>75,280</u>
Net Change in Fund Balances	10,684	7,816	18,500
Fund Balances - Beginning	10,072	51,032	61,104
Fund Balances - Ending	<u>\$ 20,756</u>	<u>\$ 58,848</u>	<u>\$ 79,604</u>

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Jody L. Jenkins, Union County Judge/Executive
The Honorable Frank J. Eiter, Former Union County Judge/Executive
Members of the Union County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 18, 2007. Union County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Union County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Union County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Union County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Fiscal Court Should Revise The County's Capitalization Policy To Reflect The Actual Useful Life Of Infrastructure Being Used By The County In Current Schedules

Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Union County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Union County Judge/Executive's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Judge/Executive's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Percy and Gray PSC
Certified Public Accountants
Louisville, Kentucky

September 18, 2007

**UNION COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year ended June 30, 2007

CURRENT YEAR:

Significant Deficiency

The Fiscal Court Should Revise The County's Capitalization Policy To Reflect The Actual Useful Life Of Infrastructure Being Used By The County In Current Schedules

During our testing of depreciation expense, we discovered that several of the prior year infrastructure amounts were not being depreciated over the useful lives dictated by the Fiscal Court's capitalization policy. The approved Capitalization Policy set the useful lives of infrastructure from thirty to fifty years. However, infrastructure was actually being depreciated with the following useful lives in accordance with prior suggestions made in GASB 34 training sessions attended by Kentucky counties:

Paved (Resurfaced) Roads - Twelve years
Subdivision Roads - Twenty-five years
Unpaved Roads - Fifteen years
Bridges-Fifty years

When evaluating useful lives, the use of information provided by a knowledgeable third party is strongly recommended.

We recommend the Fiscal Court revise the County's capitalization policy to reflect the actual useful life of infrastructure as twelve to fifty years in accordance with current practice.

Response: We concur with your findings. We will change our infrastructure policy to reflect our current practice of twelve to fifty years for depreciation of infrastructure.

PRIOR YEAR:

None

THIS PAGE LEFT BLANK INTENTIONALLY

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

UNION COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAM

UNION COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Union County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Local Government Economic Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

Jody Jenkins
Name
County Judge/Executive

Lisa Gibson
Name
County Treasurer

